

For publication

Month 2 Budget Monitoring 2020/21 & Updated Medium Term Financial Plan

Meeting:	Council Cabinet
Date:	15 th July 2020 14 th July 2020
Cabinet Portfolio	Deputy Leader
Report by:	Interim Chief Finance Officer

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- 1.0 **Purpose of report**
- 1.1 To provide the Council with an update on the budget position at the end of month 2, covering:
- General Fund Revenue Budget
 - General Fund Capital Programme
 - Housing Revenue Account
- 1.2 To meet the requirement set out in the Financial Procedure Rules to provide the Council with regular updates on the Council's financial position.
- 1.3 To report on the impact of Covid19 on the medium term financial plan.

2.0 Recommendations

- 2.1 To note the general fund revenue budget financial performance in the first two months of the financial year and the new medium-term financial plan (Sections 4 and 5).
- 2.2 To approve the changes to the medium-term financial plan outlined in Sections 4 and 5.
- 2.3 To approve the updated capital programme outlined in section 6.
- 2.4 To approve the financing of the capital programme outlined in paragraph 6.3.
- 2.5 To note the position on HRA budgets (Section 7).

3.0 Background

- 3.1 The Council approved the original budget for 2020/21 on 26th February 2020. The Band 'D' Council Tax was set at £169.89. The forecast budget for 2020/21 was a surplus of £16k.
- 3.2 The impact of Covid19 has meant that in the first few months of the year, officer time has been focussed on maintaining council services and assisting the wider community. This has led to an increase in spend over and above budgeted levels particularly around rough sleeping, homelessness, waste recycling and ICT solutions to enable home working. It has also limited progress on our ability to deliver savings for both this year and the remaining years of the medium-term financial plan.
- 3.3 At the same time, a number of key revenue streams have dried up as members of the public have been unable to utilise our sports centres, venues and car parks.
- 3.4 This has inevitably had an adverse impact on the budget forecast for 2020/21 and a full assessment of the scale of the

impact has recently been completed based on the information available to us at the present time. The situation will need to be closely monitored as the impact of the pandemic becomes more widely understood and continues over time.

4.0 Current Year's Budget

4.1 We started the year with a forecast surplus of **£16k**. At the end of month 2, known variances in relation to the impact of Covid19 have produced an anticipated deficit forecast at year end of **£3.246m**. A revised General Fund Summary for 2020/21 can be found at appendix A. A summary of the key variances is provided in the table below:

2020/21 UPDATED BUDGET FORECAST		
	(£000)	(£000)
Surplus Forecast at the start of the year		(16)
<u>Covid19 Impact: -</u>		
Sports Centres	2,340	
Car Parking	1,269	
Venues	362	
OSD Surplus	331	
Town Centre	303	
Business Rates Pooling	300	
Covid19 Expenditure - Homelessness & PPE	241	
Industrial/Commercial Rents	148	
Commercial Waste	124	
Investment Income	98	
Catering	98	
Spirepride Surplus	90	
Bad Debts Provision	75	
Legal & Land Charges Income	42	5,821
<u>Covid19 Related Grants: -</u>		
MHCLG Covid19 Grant	(1,097)	
CJRS (Furlough Grant April to June)	(500)	(1,597)
<u>Agreed Savings & Additional Expenditure: -</u>		
Gas & Electricity	(140)	
Contribution to Business Rates Reserve	(440)	
Other Income	(107)	
Expenditure Savings – Budget Challenge	(92)	

Contribution to Vehicle & Plant Reserve	(50)	
Domestic Waste Contract	(65)	
Bank Charges	(52)	
Crematorium Surplus	(47)	
Pay Award (2.75% not 2.5%)	31	(962)
Updated Deficit Forecast		3,246

4.2 Changes to Approved Budgets

4.2.1 The council's response to the pandemic has required additional spend over and above approved budgets in a number of areas, for example on homelessness, waste recycling and personal protective equipment. ICT digital improvements have been brought forward in the programme to enable members and staff to work from home and increased cleaning requirements for public conveniences will create an additional spending pressure. This increase in costs has been built into the revised estimates for 2020/21. Any further costs identified as the council's response to the pandemic continues and transitions into the recovery phase will be reported to Cabinet and Council in future budget monitoring reports.

4.2.2 The enforced closure of the sports centres, venues and car parks has had a significant impact on the financial position. Based on our predictions so far, we are anticipating a fall in income of 70% (£2,617,640) at the sports centres, 49% (£1,287,880) from car parking and 49% (£1,021,600) from venues. Whilst we have minimised costs by applying for financial assistance from the government's furloughing scheme, the impact of Covid19 on these three service areas has increased the deficit by £4,741,040.

4.2.3 The impact of the pandemic on the wider economy has also had a significant impact on our rental income from industrial, commercial and retail properties which are evidencing higher void levels, and similarly rental income from our markets and

the Market Hall. We have also experienced a fall in income from our commercial waste service.

4.2.4 The 'Everyone In' and 'Keeping Everyone In' initiatives to reduce homelessness and rough sleeping has also created additional cost pressures due to the grant funding received not covering the additional expenditure incurred in its entirety.

4.2.5 The original budget for 2020/21 included a surplus from the Operational Services Division (OSD) of £331k which is transferred to the General Fund in line with the council's financial strategy. OSD were unable to carry out any work other than emergency repairs/voids during lockdown and coupled with the new working requirements to ensure that tenants and staff remain safe it will be more difficult for the service to generate a surplus this year. An officer working group has been created with the objective of recovering the original surplus forecast.

4.2.6 Because of the serious impact of the pandemic on our financial position, a review of budgets has been carried out. A number of one-off savings in non-essential areas have been identified and these reductions have been included in the revised estimates for 2020/21. Work continues to identify further savings.

4.3 Government Assistance

4.3.1 The Government has provided local authorities with £3.2 billion in financial assistance to date. This came in two tranches of £1.6bn each. In the first tranche most of the funding went to upper tier authorities. Our allocation was £59,414. The second tranche was distributed on a population basis and we received £1,037,544.

4.3.2 It is expected that a further allocation of funding will be made available. We have not yet received formal notification of this, but it is not expected to fully cover the losses incurred.

4.3.3 The Joint Cabinet & Employment & General Committee recently approved a proposal to submit a claim to the Government's furlough scheme for staff in sports centres, venues, OSD, car parking and catering. This grant income has been included in the revised estimates.

4.4 Officers are already working to identify and recommend ways in which to reduce the £3.246m forecast deficit in 2020/21. The size of the deficit will ultimately be defined by the value of any further allocations of Government Covid19 grant support. Every effort will then be made to identify further reductions in expenditure and to raise new income. Any shortfall would ultimately have to be met from reserves, which would reduce the council's resilience to meet future funding challenges.

4.5 Provisions and Reserves

4.5.1 Officers are carrying out an early review of current balances on earmarked reserves and provisions together with a review of 2020/21 contributions to reserves to identify potential savings.

5.0 Medium Term Outlook

5.1 The impact of the pandemic is expected to have a detrimental effect on the medium-term financial plan particularly in 2021/22. Due to the accounting arrangements around council tax and business rates income, the consequences of any reduction in collection rates in the current financial year will not be felt until the following financial year.

Collection rates for council tax at the end of May are 19.4% compared to 20.6% at the same time last year. This represents a reduction of £631k for the first two months of 2020/21. If this rate of loss of income were to continue for the full year, the shortfall would be £3.16m, 10% of which would accrue to

Chesterfield. However, the level of collection rates may deteriorate further.

For business rates, the collection rate is 16% compared to 17.6% last year. The number of customers who have a balance to pay but who have not yet made a payment is 553 and the value of overdue instalments stands at £1.55m at the end of May. Chesterfield receives 40% of any business rate income received and lost income relating to 2020/21 would impact the 2021/22 budget position.

A review of the council's position on recovery action for arrears may reverse this trend to some extent. The situation is being closely monitored and we will report further as the impact of the pandemic on the economy becomes clearer.

- 5.2 The medium-term financial plan approved at Council on 26th February 2020 evidenced a more challenging outlook from 2021/22 onwards with annual forecast deficits of at least £700k.

In response to this position, Council approved an action plan to eliminate the forecast deficits over the life of the medium-term financial plan. These were to be developed by officers and approved by members during 2020/21 in order that savings could be realised for the start of 2021/22, placing the medium-term financial plan on a path to a balanced position through 2024/25.

However, the impact of Covid19 has meant that in the first few months of this year, officer time has been focussed on maintaining council services. Unless attention can be given to achievement of the action plan between now and the end of the financial year, members will be faced with difficult decisions ahead of the 2021/22 budget setting process.

5.3 The table below compares the latest medium-term financial plan with that approved on 26th February 2020:

	Budget Forecasts				
	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
February 2020 budget Deficit / (Surplus)	(16)	723	767	827	742
Increase / (Decrease) Month 2	3.262	349	242	288	141
Latest Forecasted Deficit / (Surplus) Quarter 2	3.246	1,072	1,009	1,115	883
Transformation Projects - Savings to be Achieved	17	374	605	795	983
Latest Savings Requirement	3,263	1,446	1,614	1,910	1,866

6.0 General Fund Capital Programme

6.1 **Capital Receipts** - To date, £513k of capital receipts have been received during 2020/21. The original forecast for the year was £2.3m and included the first payment in respect of the council's land at Linacre. The current forecast of capital receipts for the year is £1.1m following the re-profiling of receipts from 2019/20. Due to the current Covid-19 situation, the first payment in respect of the land at Linacre is now expected in 2021/22. Further capital receipts need to be identified by the Council beyond 2021/22 when the 'pipeline' declines, otherwise the Council's borrowing will have to increase over time to fund further capital projects, putting more pressure on General Fund deficits.

6.2 **General Fund Capital Spend** –the original capital budget for 2020/21 was £20.3m, the revised position now stands at £19.9m (see appendix B for details). This includes £2.4m in respect of slippage from the 2019/20 capital programme. The other major differences in the capital programme are:

- Inclusion of additional Revitalising the Heart of Chesterfield expenditure (£650k), to be funded from a grant from D2N2 LEP;
- Reprofile of expenditure into 2021/22 for schemes including Waterside Basin Square Development, Northern Gateway and Revitalising the Heart of Chesterfield;

6.3 Net Capital Financing – The original 2020/21 capital programme assumed a break even position and was approved by Council on 26th February 2020. Total borrowing of £14.2m is required in 2020/21 and £200k in 2021/22. The re-profiling of expenditure into 2021/22 has had a favourable impact on the General Fund Minimum Revenue Provision (MRP) for 2021/22, which has reduced from £682k to £364k. An updated capital programme will be reported to members in October 2020.

7.0 Housing Revenue Account (HRA)

7.1 Housing Revenue - Rent Arrears have increased in the first two months of the financial year due to the impact of Covid19. By the year-end it is forecast that rent arrears could be as high as £4.6m, compared with £1.8m at the end of 2019/20. As a result, the bad debts provision has been increased by £605,000 in the revised budget for 2020/21, to give a total bad debts provision of just under £2.2m (48% of the estimated arrears).

The main areas of spend such as employees, premises and supplies and services are on target, except for Housing Repairs, where the impact of Covid19 has reduced repair work to just jobs of an urgent nature for the first 2 months of the year. Consequently, there is an underspend of £781k up to the end of May. It is anticipated that OSD will be able to catch up with external and voids works once safe systems of working have been agreed, meaning that the budget for this work will be fully spent by the year-end. However, on internal works such as plastering it is estimated that there will be an underspend of £497k by the year-end.

7.2 **Housing Capital Programme** - At the end of month 2 there was very little spend on the HRA Capital Programme. This was due to contractors withdrawing, safeguarding and furloughing their workforces in response to Covid19.

However, following the drawing up of procedures for safe working by the various contractors, a number of capital projects restarted on site in early June, including the Brockwell Court and Manor Drive new build schemes. It is also planned to use additional contractors to pull in the work not undertaken during April and May. Therefore, it is currently planned to spend the whole of the capital programme budget of £25.9m by the end of the financial year.

7.3 **HRA Business Plan** - The 30 Year HRA Business Plan will be updated to reflect the impact of Covid19 and other changes and will be presented to a future meeting of Cabinet for consideration. However, it is thought that there will be minimal impact on the "bottom line" as the increase in the bad debts provision has been largely offset by the forecast underspend on the repairs budget.

8.0 Risk Management

8.1 Budget forecasting, particularly over the medium term, and in the current climate is not an exact science. Officers are doing their best to forecast future expenditures and income streams but the final outcomes could be very different e.g. a second Covid19 wave, further Government grants, pay awards, investment returns, etc. A full budget risk assessment will be included in future budget monitoring reports and the draft budget setting reports later in the financial year.

9.0 Legal Considerations

- 9.1 There is a legal requirement for the Council to set a balanced budget before the start of each financial year and for the Chief Finance Officer to report on the robustness of the estimates and the adequacy of the reserves. Clearly, further, detailed work is required to minimise the impact of the pandemic on this year's financial position and to enable us to set a balanced budget for 2021/22 in February 2021.

10.0 Equality & Environmental Considerations

- 10.1 Individual equality and environmental impact assessments are not required for the budget process. These are included as part of the decision making process for specific spending options.

11.0 Conclusions

- 11.1 The Covid19 pandemic has had a seriously detrimental effect on the budget position for 2020/21 and future financial years. The current forecast deficit for the year is £3,245,679. Further funding is expected from central government but allocations are still to be announced. Given that Councils have a legal duty to balance their budgets, the Local Government Association continue to lobby government for further funding and flexibilities on behalf of all councils to provide financial certainty and sufficient additional funding to cover all costs and lost income from fees and charges and local taxation and thereby avoid the need for in-year savings and reductions to services.
- 11.2 Officers are continuing to review their respective budgets as more and more council facilities and services are restored, and work will continue to identify and agree further savings in 2020/21 to reduce the in-year deficit to a position which will require minimal recourse to the use of reserves.
- 11.3 The council is legally obliged to set a balanced budget and any remaining deficit in this year must be met from the

implementation of in-year service efficiency measures and/or the use of reserves to meet the shortfall. The use of reserves will have an adverse impact on our financial standing going forward and impact on our ability to fund service developments in future years and is therefore an option of last resort.

- 11.4 The outlook for future years is also impacted. The ability to deliver the agreed in-year action plan to achieve savings to address predicted deficit forecasts in future financial years is at risk as officers prioritise the council's continuing response to the pandemic. Further revenue pressures are also expected as a result of the pandemic undermining the council's ability to deliver a balanced medium-term financial plan.
- 11.5 Further reports will be brought to Cabinet and Council to update members through the current financial year.

12.0 Recommendations

- 12.1 To note the general fund revenue budget financial performance in the first two months of the financial year and the new medium-term financial plan (Sections 4 and 5).
- 12.2 To approve the changes to the medium-term financial plan outlined in Sections 4 and 5.
- 12.4 To approve the updated capital programme outlined in section 6.
- 12.4 To approve the financing of the capital programme outlined in paragraph 6.3.
- 12.5 To note the position on HRA budgets (Section 7).

13.0 Reasons for recommendations

- 13.1 To actively manage the Council's finances in the current financial year and forecast forward the emerging budget position to future financial years.

Decision information

Key decision number	959
Wards affected	All
Links to Council Plan priorities	All

Document information

Report author	Contact number/email
Helen Fox	Ext. 7273
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix A	General Fund Summary 2020/21
Appendix B	Revised Capital Programme 2020/21